



Brainy's Articles on Technical Analysis Candlestick patterns

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Introduction

Share market price charts can be displayed in a number of ways, with the most common chart types being a *line chart*, the *OHLC chart* (open, high, low, close) and the *candlestick chart*. A simple candlestick chart is shown in Figure 1 below.

The candles on candlestick price charts display the open, high, low, and closing prices in a format somewhat similar to the modern-day bar-chart. On the weekly chart, each candle summarises the price action over one week. In the sample weekly chart of Commonwealth Bank at right, the horizontal time axis shows the date at the start of each week. For example, the candle in the week of 13 July 2009 ranged in price from about \$37 up to nearly \$40.

The individual features of each candle can provide clues to the underlying emotion and psychology of the market. These clues are in the length of the upper or lower shadow, as well as in the height of the candle body, and whether the Open is above the Close, or below it. And there are names allocated to specific candle shapes — eg. Doji and Marubozu.



Figure 1: Simple weekly candlestick chart.

Further to this, two consecutive candles together can provide a greater insight into the state of the market, and perhaps the likely future direction of the market. In this situation, the two candles together can form a specific pattern that has an assigned name. This also applies to some particular combinations of three candles, and sometimes four or five candle groups.

In this Article TA-3700, "*Candlestick patterns*", we take an introductory look at a number of the more common single-candle shapes (or patterns), and the multi-candle patterns, and how to interpret them. Because of the very large number of recognised candle shapes and patterns, this article can only be a good introduction to the topic.

For an introductory look at the basic candle shape, and a description of the candle's component parts (ie. body, shadow, wick, etc.), refer to Brainy's Article TA-3110, "*Candlesticks explained*". That article was updated in July 2010 and includes a brief insight into the Japanese origins of candlesticks, and a new section on page 3 "*The Tug of War — the bulls and bears*".

Candlestick basics — quick revision

Here is a quick recap of some key concepts, with reference to Figure 2 at right, noting that a candle might, or might not, comprise a body, and possibly an upper shadow, and possibly a lower shadow.

Candle body — The rectangular candle body highlights the trading range from the open to the close and it might be very short (as in a Doji, see below), or rather long. Candles tend to be either white/black on a chart, or green/red. The white (or green) candle indicates the close is higher than the open. The black (or red) candle indicates the close is lower than the open.

Candle tails, wicks, shadows — The top of the upper shadow is the high of the period, while the bottom of the lower shadow

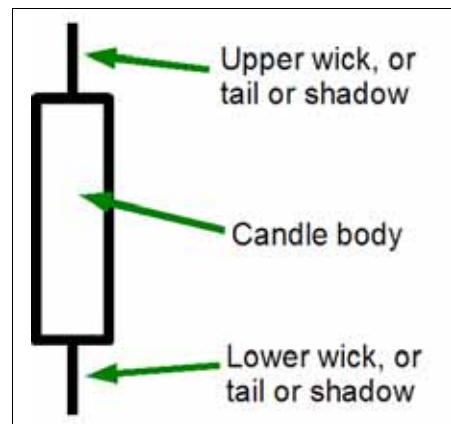


Figure 2: Candlestick elements.